



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

TO: Participating Schools and Lenders

FROM: Patricia W. Scott, Director *PWS*

DATE: April 16, 2004

SUBJECT: Educational Loan Notes

DEFAULT AVERSION TASK FORCE MEETS

On Tuesday, March 30, 2004, the Default Aversion Task Force met for the second time to share ideas about default aversion strategies, review the Michigan Guaranty Agency (MGA) student loan default projections and statistics, and follow up on ideas generated at the last Default Aversion Task Force meeting in November 2003. Members of the task force include financial aid officers representing the different school sectors in Michigan and MGA staff.

Jim Peterson, MGA's School Services Manager, reviewed progress made since the last Task Force meeting. At the suggestion of the Task Force, a brochure was created to discuss the pros and cons of loan consolidation. Currently, over 11,000 brochures have been sent to schools. Jim also spoke on the implementation and success of using skip tracing to locate borrowers. Eight schools are actively using MGA's skip tracing to update borrowers' addresses and telephone numbers.

Renee Suryan and Stephanie Petsch from Eastern Michigan University (EMU) spoke about their experiences with two new reports developed by MGA at their request. The **High Debt Load Borrowers Report** targets student loan borrowers with a cumulative loan amount greater than \$35,000. (This report is available in Excel, Comma Delimited, etc.) The **Annual Student Loan Debt Summary** lists all students and their cumulative student loan debt guaranteed by MGA, for a given academic year. (This report lists each student separately and can be given directly to the student in a school mailer.) An email to all schools announcing the availability of these two reports was sent in early April to all schools.

Student Borrower Services (SBS), a division of National Asset Management, outlined their role in helping borrowers through the initial grace and repayment phases of the loan cycle. SBS currently contacts all withdrawn students and all students from proprietary and community colleges who will be entering repayment in understanding their rights and responsibilities. **Beginning June 1, 2004, SBS services will be available to all students at all schools.** This month, four-year public and private schools will be given the option to have all of their students contacted by SBS.

Lorne Gauthier from Northwestern Technological Institute and Susan Doyle from Baker College presented their recent experiences with the Student Assistance Corporation (SAC). SAC works with delinquent students who are close to defaulting on their loans. Both schools have had positive experiences in resolving delinquencies.

(Continued on the next page.)

Justin Draeger in MGA's Customer Services Unit has taken on the role of Default Aversion Task Force Liaison. He presented a statistical analysis of all defaulted borrowers in MGA's portfolio. Statistics from Cohort Year's 2001 and 2002 indicate that almost 85% of all defaulters are withdrawn students. Furthermore, statistics show that there is no sector (i.e. proprietary, private, public, etc.) that is contributing proportionately more defaulted students than any other sector within MGA's portfolio of total defaulted borrowers.

With these statistics in mind, the Task Force suggested that a special "Withdrawal Packet" be developed in the near future to be given directly to withdrawn students. Additionally, a "Best Practices Workshop" is in development and is planned for late next fall. Plans are also underway for more exploration of SBS's role in helping withdrawn borrowers meet their student loan responsibilities.

Finally, MGA reviewed its preliminary Cohort Default Rate (CDR) for 2002. MGA's Preliminary CDR has dropped nearly 2 percent to 7.96 percent. All Task Force schools also shared that their preliminary cohort rates have either stayed the same or dropped for Cohort Year 2002. In short, more students are finding success in repaying their student loans!

For questions or comments concerning the Default Aversion Task Force or any other default aversion activities, please contact Justin Draeger at 1-800-642-5626, extension. 31940 or via email at draegerj@michigan.gov.

MGA 2004 SPRING SCHOOL WORKSHOPS

The Michigan Guaranty Agency is gearing up for our 2004 Spring School Workshops. These workshops offer an interactive format to provide you with the latest information to help you administer federal student loans. As always, there is no cost to your institution for attendance at our workshops. The workshops will cover the following topics:

- **Policy and Regulatory Update**

The hot topic in the financial aid industry can be summed up in one word: reauthorization. Congress has begun work on the reauthorization of the Higher Education Act (HEA). This session will inform you about the current reauthorization legislation and will focus on the direction reauthorization may take.

- **Federal Methodology**

Part F of the HEA specifies the criteria, data elements, calculations, and tables that are used in the computation of the Expected Family Contribution (EFC). Financial aid administrators need a thorough understanding of federal methodology to properly implement their professional judgment. This session will cover the elements used in federal methodology, how these elements are used, and how changing the elements affects the computation of the EFC.

- **A Closer Look at Consolidation**

With the advent of historically low interest rates on student and parent loans, loan consolidation has become increasingly popular. This session will assist you in counseling students and parents about Federal Consolidation loans. Frequently asked questions will be answered, guidance and recommendations will be given, and concise explanations will clarify the important aspects of Federal Consolidation loans.

- **Student Borrower Services**

MGA partnered with Student Borrower Services in May 2000 to enhance default aversion activities. Michele Anderson from SBS will lead this session and will cover the role SBS plays in MGA's default aversion strategy.

(Continued on the next page.)



- **Information Security**

Identity theft is among the top 20 of the fastest growing crimes in the United States. Identity theft is the acquisition of key personal information used to impersonate someone else – living, or dead. This session will cover tips on how to educate students and staff on ways to properly handle and protect sensitive information. This is a hot topic and applies to both your work and personal life.

- **Bankruptcy**

What action should the school take if it learns that a borrower's bankruptcy schedule includes a Title IV loan for which some (or all) of the loan disbursements are to be made after the date of filing? What are the different types of bankruptcy? These and other questions regarding bankruptcy will be addressed at this session. MGA will provide basic information on bankruptcy, our policies, and the timeframe that affects different types of bankruptcies.

Workshops will be held on May 25, 2004, at the Radisson Hotel in Grand Rapids and on May 26, 2004, at St. John's Golf and Conference Center in Plymouth. Registration and continental breakfast will begin at 8:30 a.m., with the first session starting at 9:00 a.m. Lunch will be provided, and we plan to conclude at approximately 3:00 p.m.

Registration materials were recently sent via email. If you have any questions or concerns regarding registration, please contact Stacy Cardwell at extension 36074. Other questions pertaining to the workshop should be directed to Nancy Vaughn at extension 31871.

UPDATED MINIMUM PC REQUIREMENTS AND OPTIMAL PC CONFIGURATIONS FOR 2005-06

New minimum PC requirements and optimal PC configurations for the 2005-06 award year were released by the U. S. Department of Education (ED) at its annual Spring

Conference, held March 29-31 in New York City. ED officials at the conference said they plan to issue a Dear Partner Letter in April to formalize the new requirements.

Minimum Configuration Requirements

- IBM or fully IBM-compatible PC
- 1.2 GHz (processor speed)
- 512 MB RAM
- 60 GB hard drive
- 56 Kbps modem (that meets or is upgradable to V.90 standard)
- 3.5"/1.44 MB diskette drive
- Monitor and video card capable of Super Video Graphics Adapter (SVGA) (800x600) resolution (small fonts only) or higher
- Windows compatible keyboard with Microsoft compatible mouse
- Laser printer capable of printing on standard paper (8.5"x11")
- 48x CD-ROM drive or higher with sound board (CD-RW drive recommended)

Optimum Configuration Recommendations

- Intel/AMD compatible processor
- Intel Pentium 4 processor--2.80 GHz/333 MHz
- 1 GB SDRAM
- 80 GB hard drive
- DSL line or higher speed
- 3.5"/1.44 MB diskette drive
- Monitor and video card capable of Super Video Graphics Adapter (SVGA) (800x600) resolution (small fonts only) or higher
- Windows compatible keyboard with Microsoft compatible mouse
- Laser printer capable of printing on standard paper (8.5"x11")
- 48x CD-ROM drive or higher with sound board (CD-RW drive recommended)

ED's Office of Federal Student Aid (FSA) currently supports the Windows 2000 and Windows XP Professional operating systems. In addition, FSA will continue to support Windows 98, 98SE, and ME only until July 1, 2006. FSA does not support Windows 95 or XP Home.

COMMON MANUAL RESTRUCTURE – CHANGES TO APPENDIX F AND H

Common Federal Family Education Loan Program (FFELP) forms previously found in appendix F of the *Common Manual* have been removed because the forms are subject to change throughout the year, and the manual often did not contain the most current versions. Up-to-date versions of the forms are available on MGA's Web site at www.michigan.gov/mistudentaid. Click on "Resources" and then on "Forms".

Appendix F is now called "FFELP-Related References". It is the future home of information regarding non-HEA laws that may pertain to FFELP.

Appendix H, the history appendix, has also been reorganized. To help *Common Manual* users zero in faster on the information they need, titles were added to each topic within each date, and related paragraphs were consolidated under the applicable topic. Topics have been alphabetized by title within each date.

Because of the many recent changes made to the *Common Manual*, MGA will continue to highlight those changes in future issues of *Educational Loan Notes*. If you have any questions regarding the restructure, please feel free to contact Dan Tryon at extension 34981.

NSLDS REPORTING REMINDER

Federal law requires lenders and lender servicers to report all status changes throughout the life of a loan to their guarantors. MGA encourages its lenders to report status changes on a monthly basis. It is crucial that loan information is updated and reported in a timely manner so MGA loan data will match the information on the lender's system. This will ensure that the information sent to the National Student Loan Data System (NSLDS) is accurate.

Status changes to report include, but are not limited to:

- Enrollment status changes
- Cancellation of all or a portion of the loan
- Loan sales or transfers
- Disbursement date changes

- Date loans enter repayment
- Loans that have been paid-in-full or consolidated.

Forms currently used by lenders to report changes are:

- Loan Maintenance form
- Loan Change form
- Disbursement Change form
- Borrower/Student Personal Information form
- Sub/Unsub Reallocation form

If you need to order forms please visit our Web site at www.michigan.gov/mistudentaid. Click on "Resources" and then "Ordering Supplies." If you require assistance with reporting to the NSLDS or have other questions or concerns regarding NSLDS reporting, please contact Betty Calloway, Lender Services Specialist, at extension 39639, or via email at callowayb@michigan.gov.

ED EXPLAINS POLICY ON CONSOLIDATION LOANS

The U.S. Department of Education recently clarified its policy on loan consolidation in a letter to the National Council of Higher Education Loan Programs, Inc. (NCHELP). The letter states that FFELP lenders cannot consolidate non-FFELP loans without a FFELP loan being included in the consolidation and that loans made in violation of this policy will not be insured. This policy also pertains to situations where the borrower has no outstanding FFELP loans – only Federal Direct Loan Program loans.

ED issued the letter in response to inquiries from lenders who questioned whether a borrower who has both FFELP and non-FFELP loans may obtain a FFELP Consolidation loan for only the non-FFELP loans.

To assist any borrowers who may have received erroneous advice, ED will allow borrowers who have both FFELP loans and non-FFELP loans to consolidate their non-FFELP loans into a FFELP Consolidation loan if the loan verification certificates were sent to the loan holders prior to May 1, 2004.

If you have questions regarding this matter please contact Betty Calloway at extension 39639, or via email at callowayb@michigan.gov.

SPECIAL ALLOWANCE RATES

Special Allowance rates based on the 91-day Treasury bill (T-bill) average and the three-month Commercial Paper average for quarter ending March 31, 2004, are attached to this issue of *Educational Loan Notes*. The average of the bond equivalent rates of the 91-day T-bills auctioned during the quarter ending March 31, 2004 is **.93%**.

All new FFELP loans disbursed on or after January 1, 2000, are paid special allowance, if eligible, based on the Commercial Paper rate. The average of the bond equivalent rates of the quotes of the three-month Commercial Paper (financial) rates in effect for each of the days in the quarter ending March 31, 2004 is **1.05%**.

**AMENDMENT TO
SPECIAL ALLOWANCE FOR
DECEMBER 31, 2003 QUARTER**

Attached to this issue of *Educational Loan Notes* is a corrected chart of the special allowance rates which affected categories SJ and SK for the quarter ending December 31, 2003. Please update this information accordingly. If you have questions regarding special allowance rates please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

SCHOOL LIST UPDATES

The following changes should be recorded by lenders on MGA's "Active Michigan School List" dated January 23, 2004. If you have any questions regarding these changes, please contact Stacy Cardwell at extension 36074.

Correction

**Glen Oaks Community College, Centreville,
002263-00**

Matthew Soucy's correct extension is 322.

**LENDER LIST UPDATES**

School personnel should record the following actions on the "Participating Lender List" dated January 26, 2004. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076.

Termination of Lender

Bank One, N.A., A.T.F. Bosque Higher Education Authority, 808936.

Please delete this lender code.

Name Change

U.S. Bank, N.A. ATF Colorado HEA, 833864, changed its name to Academic Finance Corporation.

"Q" & "A"**COST OF ATTENDANCE (COA)**

*2003-2004 Federal Student Aid Handbook
Volume 1, Chapter 7*

What is a student loan borrower's cost of attendance (COA) and why must our institution calculate a COA for each borrower?

COA is an estimate of a student's educational expenses for a period of enrollment. In order for a school to certify a Stafford or Parent Loan for Undergraduate Students (PLUS), it must determine the loan amount the borrower is eligible to receive.

Our institution has borrowers who still have outstanding charges from their previous period of enrollment. Can we add that charge to the current loan period for the purpose of determining their COA?

No, outstanding charges or fees from a prior period of enrollment cannot be used to determine a borrower's COA. Costs that have already occurred or are expected to

(Continued on the next page.)

occur within the borrower's current period of enrollment are the only costs that can be used to determine their COA.

What categories make up a student's COA?

A student's COA generally is the sum of the following:

- The tuition and fees assessed for a student carrying the same academic workload.
- An allowance for books, supplies, transportation, and miscellaneous personal expenses.
- An allowance for room and board.
- For a student with dependents, an allowance for costs expected to be incurred for dependent care.
- For study-abroad programs approved for credit by the student's home institution, reasonable costs associated with such study.
- For a disabled student, an allowance for expenses related to a student's disability.
- For students engaged in a work experience through a cooperative education program, an allowance for reasonable costs associated with such employment.
- For students receiving Federal Student Aid (FSA) loans, the fees required to receive them.

Do we have to use exact amounts when determining the COA?

You can use the actual cost for each student or a cost the average student would pay. If you establish a standard COA for the various categories, you must apply these to all students uniformly in those categories.

How does a student's enrollment status effect the determination of their COA?

For students enrolled less than half time, only tuition and fees, allowances for books and supplies, transportation, and dependent care expenses can be included to calculate their COA. Miscellaneous expenses are not to be included for students that are less than half time but can be used for that are enrolled at least half time or full time.

What factors are used to calculate allowances for dependent care?

An allowance for dependent care is based on estimated expenses that will occur during the student's period of enrollment. It is based on the number and age of the dependents and should not exceed the reasonable cost in the community for the type of care provided. The allowance includes dependent care during the student's class and study time, field work, internships, and commuting time.

Our institution has some students whose tuition and fees are paid by an outside agency. Can we use zero for the tuition and fees category in determining this student's COA?

If the students are charged for the tuition and fees, even if the charge is eventually paid by someone other than the students, then that tuition and fees amount is included in the COA. However, if the students are never charged for tuition and fees, then the COA would not include the tuition and fees category.

Can the purchase of a computer be included in a student's COA?

A reasonable amount for the documented rental or purchase of a personal computer may be included as part of the allowance for books, supplies, transportation, and miscellaneous expenses, as determined by the school.



Calendar of Upcoming Events

April 2004

21-23 Bank Operations and Technology Conference
Michigan Bankers Association
Grand Rapids, Michigan

May 2004

11 Guaranty Agency Advisory Committee
University Club
Michigan State University
East Lansing, Michigan

11 Mapping Your Future Evening Chat
Student Loan Forgiveness, Cancellation, and
Discharge

20-21 Michigan Credit Union League
Annual Convention and Exposition
Marriott Renaissance Center
Detroit, Michigan

25 Spring School Workshop
Radisson Hotel
Grand Rapids, Michigan

26 Spring School Workshop
St. John's Conference Center
Plymouth, Michigan

31 MGA Office Closed

June 2004

8 Mapping Your Future Daytime Chat
Loan Consolidation

15-18 Michigan Bankers Association
Annual Convention
Mackinac Island

27-30 MSFAA Summer Conference
Shanty Creek
Bellaire, Michigan

If you need further information
or wish to submit items for the
calendar, please contact Jim
Peterson, Editor, at extension
36944, or via email at
petersonj@michigan.gov.

LOAN NOTES

April 2004

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**91-DAY TREASURY BILL
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING MARCH 31, 2004**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
SA	7% 9%	0 0	0 0	<u>SA</u> - for loans made before 10/01/81.
SB	7% 8% 9%	0 0 0	0 0 0	<u>SB</u> - for Stafford (subsidized) and PLUS loans made on/after 10/01/81 but before 10/17/86 or loans made on/after 10/17/86 but before 11/16/86, for enrollment periods beginning before 11/16/86.
SD	7% 8% 9% FVAR10 (5.01%) PLUS/SLS Var (5.38%)	0 0 0 0 0	0 0 0 0 0	<u>SD</u> - for Stafford (subsidized) and PLUS/SLS loans made on/after 10/17/86 but prior to 11/16/86 for enrollment periods beginning on/after 11/16/86. For Stafford (subsidized) and PLUS/SLS loans made on/after 11/16/86 but before 10/01/92. Also, for Stafford (unsubsidized) loans made prior to 10/01/92 for periods of enrollment beginning on/after 10/01/92.
SE	FVAR7 (4.86%) FVAR8 (4.86%) FVAR9 (4.86%) FVAR10 (4.86%) EVAR (4.86%) PLUS/SLS Var (5.23%)	0 0 0 0 0 0	0 0 0 0 0 0	<u>SE</u> - for Stafford loans made on/after 10/01/92 but prior to 07/01/94, regardless of the enrollment period, or loans made after 07/01/94 for an enrollment period ending prior to 07/01/94. Also, for PLUS loans made on/after 10/01/92 but before 07/01/94. Also, for SLS loans made on/after 10/01/92 but before 07/01/94; or <i>certified</i> before 07/01/94 and <i>disbursed</i> after 07/01/94.
SG	Stafford Var (4.86%) PLUS Var (5.23%)	0 0	0 0	<u>SG</u> - for Stafford loans made on/after 07/01/94 but before 07/01/95, or loans made on/after 07/01/95 but before 07/01/98, during periods of repayment or forbearance. Also, for PLUS loans made on/after 07/01/94 but before 07/01/98.
SH	Stafford Var (4.26%) PLUS Var (4.86%)	0 0	0 0	<u>SH</u> - for Stafford loans made on/after 07/01/95 but before 07/01/98 <i>only</i> during the in-school, grace, and deferment periods. Also, for PLUS loans made on/after 07/01/98 but prior to 01/01/00.
SJ	Stafford Var (2.82%)	.0031	.000775	<u>SJ</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 <i>only</i> during the in-school, grace, and deferment periods.
SK	Stafford Var (3.42%)	.0031	.000775	<u>SK</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 <i>only</i> during the repayment and forbearance periods.

PLEASE NOTE: The 91-day T-bill average (bond equivalent rate) is **.93%** for the **first** quarter of **2004**. This results in the following yields:

SA .93% plus 3.50% = 4.43	SG .93% plus 3.10% = 4.03%
SB .93% plus 3.50% = 4.43%	SH .93% plus 2.50% = 3.43%
SD .93% plus 3.25% = 4.18%	SJ .93% plus 2.20% = 3.13%
SE .93% plus 3.10% = 4.03%	SK .93% plus 2.80% = 3.73%

**91-DAY COMMERCIAL PAPER
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING MARCH 31, 2004**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
CA	Stafford Var (2.82%)	0	0	<u>CA</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, only during the in-school, grace, and deferment periods.
CB	Stafford Var (3.42%)	0	0	<u>CB</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, during the repayment and forbearance periods only .
CD	PLUS Var (4.22%)	0	0	<u>CD</u> - for PLUS loans made on/after 01/01/00 but prior to 07/01/06. Note: special allowance will not be paid unless the calculated interest rate exceeds the 9% cap.

PLEASE NOTE: The three-month Commercial Paper average (bond equivalent rate) is **1.05%** for the **first** quarter of **2004**. This results in the following yields:

CA 1.05% plus 1.74% = 2.83%
CB 1.05% plus 2.34% = 3.43%
CD 1.05% plus 2.64% = 3.73%

**AMENDMENT TO
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING DECEMBER 31, 2003**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
SJ	Stafford Var (2.82%)	.0031	.000775	SJ - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 <i>only</i> during the in-school, grace, and deferment periods.
SK	Stafford Var (3.42%)	.0031	.000775	SK - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 <i>only</i> during the repayment and forbearance periods.